



**For
Defined Benefit
Active Members &
Retirees**

Montana Public Employee Retirement Administration

February 2006

Retirement Basics

As a public servant, you save for retirement every payday. A percentage of your salary is deducted from your paycheck and deposited into a trust account to pay future retirement benefits.

The Montana Board of Investments invests employees' money along with money received from local employers and the state.

The contributions and investment earnings are used to pay retirement benefits when employees meet the age and eligibility requirements of their retirement system.

A lot has been written about the Montana public employee retirement systems. The Public Employees' Retirement Board (Board)

wants to set the record straight.

Guaranteed Benefit Payments Are Not In Danger.

Presently, Montana's pension trust funds have enough assets to meet benefit obligations as they come due.

However, primarily because of investment losses from three years of a declining stock market, some pension funds do not meet legal and accounting standards for long term funding.

Lawmakers have many options to solve funding issues. There is no advantage to delay, which more likely increases the cost. So it's

reasonable to expect that retirement system funding will be addressed sooner, rather than later.

Most Montana Retirement Systems Are Actuarially Sound.

The Judges' Retirement System, the Highway Patrol Officers'

Retirement System, the Municipal Police Officers' Retirement System, the Firefighters' Unified Retirement System and the

Volunteer Firefighters' Compensation Act are all actuarially sound.

Only three of the retirement plans administered by the Board are not funded in an actuarially sound manner.

*"Public retirement systems shall be funded on an actuarially sound basis."
Montana Constitution, Article VIII, Section 15.*

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Retirement System...Good News

The elegant beauty of public employee retirement systems is too often overlooked. Let's look at how these programs profit Montana's main street and Montana's tax base, while benefiting government employers, public servants and retirees.

Low Cost Recruitment Tool.

All types of retirement plans had poor investment results during the stock market crash and the slow recovery. However, the sobering reality that money can be lost in the stock market has made Montana's defined benefit retirement systems that much more attractive, especially to skilled older workers. A

Good News continued on page 4

Montana's public employee retirement systems provide:

- ◆ A substantial benefit to Montana's economy and tax base.
- ◆ A low cost tool for recruitment and retention of the best public servants.
- ◆ A stable and reliable workforce.
- ◆ Reliable income for Montana's elderly and disabled from professionally managed pension funds.

Governor
Brian Schweitzer

Public Employees'
Retirement Board

President
CAROLE CAREY
Ekalaka

Vice President
BETTY LOU KASTEN
Brockway

ROBERT GRIFFITH
Helena

JAY KLAWON
Hamilton

TROY McGEE
Helena

JOHN PAULL
Butte

TERRENCE SMITH
Bozeman



Roxanne Minnehan
Interim Executive Director

MPERA
100 North Park Avenue
Suite 200
PO BOX 200131
HELENA MT 59620-0131
Phone (406) 444-3154
Toll Free (877) 275-7372
Fax (406) 444-5428

E-mail: mpera@mt.gov

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Editor: Carolyn Miller

Should any information in this
newsletter conflict with statute or
rules, the statute or rules will apply.

Roxanne Minnehan Serves as MPERA Interim Executive Director

Mike O'Connor Retired Effective January 1, 2006

The Public Employees' Retirement Board (Board) has appointed Roxanne Minnehan as Interim Executive Director effective January 2, 2006, following the retirement of Mike O'Connor.

Mr. O'Connor served as Executive Director for more than eight years guiding the Montana Public Employee Retirement Administration (MPERA) during a period of growth with an increased emphasis on service to members and retirees. During that time the State's 457 deferred compensation plan came under the Board administration, along with the implementation of the PERS defined contribution retirement plan. The number of

active and inactive members increased from 40,935 to 54,338 and the number of retirees from 14,510 to 18,037.

Mr. O'Connor joined MPERA in November of 1979 as an accountant. In 1989 he became the Operations Bureau Chief. Mike served as Interim Executive Director for a year before becoming Executive Director.

A native Montanan, Ms. Minnehan worked in San Francisco as an auditor for five years at Crum & Forster Insurance Company before returning to Montana. She joined MPERA in 1990 as the Accounting Supervisor. In 1997 she accepted the position of Fiscal Services Bureau Chief and continues to hold that position along with her appointment as Interim Executive Director. ■

MPERA Executive Director Search

Due to Mike O'Connor's recent retirement, the Montana Public Employees' Retirement Board (Board) is recruiting for a new Executive Director. The Executive Director is the Board's chief executive, responsible for administering seven defined benefit retirement systems, a defined contribution retirement plan, the Volunteer Firefighters' Compensation Act and the State's 457 deferred compensation plan. Duties include planning and strategic development of retirement plans and standards; public, governmental and legislative relations; and managing a staff of approximately 34 employees. Starting salary will range between \$81,000 and \$101,000, depending on education and retirement system experience.

Please check the Montana Job Service website (<http://mt.gov/statejobs>) for additional information and application deadlines, or contact Melanie Symons at msymons@mt.gov.

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The Public Employees' Retirement System, the Game Wardens' and Peace Officers' Retirement System and the Sheriffs' Retirement System are not actuarially sound. (The Board does not administer the Teachers' Retirement System.)

How Montana can meet its guarantee. Current retirement system members have a contract that can't be impaired by the state. The state can and must meet its obligation to those members – active, inactive and retired – without decreasing benefits or increasing member contributions into the pension funds. Other options exist.

Employer contributions can be increased. The retirement systems are multiple employer cost-sharing retirement plans. In recruiting and retaining workers, the state and local governments have had the substantial advantage of offering a

guaranteed retirement benefit during a stock market crash – when security was especially important to workers. A well-managed, phased, limited increase in employer contributions should not require any tax increase. For example, an employer contribution increase of less than one percent of payroll in each of the next two biennia would resolve the Public Employees' Retirement System (PERS) funding problem.

A lump sum cash infusion can be used to fund the systems. The PERS received a lump sum of \$25 million as a result of the special session. Proper lump sum funding of PERS would require an additional \$242 million. While this is a sizeable number, it is nowhere near the sensational amounts reported in many newspapers. A lump sum of \$1.2 million will resolve the Game Wardens' and Peace Officers' Retirement System funding problem. Even with a lump sum payment,

employer contributions into the Sheriffs' Retirement System must be increased (because the value of benefits now promised exceeds the amount of contributions into the system).

Benefits can be reduced for new employees (those hired after the date of the change). However, that alone would not reduce current unfunded liability. New employees could be required to make additional contributions into the pension fund. Lawmakers will need to consider the impact on recruiting if the cost of current benefits is shifted to the next generation of employees.

Because pension plans are a long-term commitment to employees' financial security, underfunding – even without an immediate impact – must be addressed immediately. The Montana Constitution plainly states, "Public retirement systems shall be funded on an actuarially sound basis."■

Local Government Representative Needed

The Montana Public Employees' Retirement Board (Board) is searching for a local government (city, county, water district, etc.) representative for its Employee Investment Advisory Council (EIAC).

EIAC is a 13 member advisory council established under § 19-3-2122, MCA to advise the Board concerning the operation of the PERS defined contribution retirement plan and the State 457 deferred compensation plan, including the selection of the investment alternatives and review and selection of third-party contracted services.

The ideal candidate should be a member of either the PERS defined contribution retirement plan or the State 457 deferred compensation plan. More information regarding EIAC can be found at MPERA's website: <http://mpera.mt.gov>. Members interested in serving on EIAC may contact Kathy Samson at (406) 444-2996 or toll-free (877) 275-7372.

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DIRECTIONS

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT OF 1992, ALTERNATIVE ACCESSIBLE FORMATS OF THIS DOCUMENT WILL BE PROVIDED UPON REQUEST.

ANNUAL BENEFITS TO MONTANA'S ECONOMY (County Totals)*

County	\$ Benefit	County	\$ Benefit	County	\$ Benefit
BEAVERHEAD	1,584,151	GRANITE	640,393	POWELL	2,708,485
BIG HORN	842,243	HILL	2,741,819	PRAIRIE	422,801
BLAINE	682,620	JEFFERSON	4,528,112	RAVALLI	3,814,061
BROADWATER	877,094	JUDITH BASIN	415,817	RICHLAND	1,281,032
CARBON	1,609,956	LAKE	3,444,641	ROOSEVELT	1,259,899
CARTER	158,506	LEWIS & CLARK	35,519,602	ROSEBUD	1,101,285
CASCADE	14,877,151	LIBERTY	305,398	SANDERS	1,064,422
CHOUTEAU	654,031	LINCOLN	1,941,939	SHERIDAN	707,278
CUSTER	3,800,060	MADISON	1,363,451	SILVER BOW	8,953,153
DANIELS	343,420	MCCONE	346,779	STILLWATER	1,043,838
DAWSON	2,575,005	MEAGHER	364,425	SWEET GRASS	468,456
DEER LODGE	5,230,898	MINERAL	917,383	TETON	1,381,452
FALLON	639,350	MISSOULA	14,052,953	TOOLE	870,351
FERGUS	3,125,324	MUSSELSHELL	683,962	TREASURE	138,904
FLATHEAD	9,213,936	PARK	1,597,955	VALLEY	1,827,476
GALLATIN	10,095,502	PETROLEUM	123,354	WHEATLAND	338,409
GARFIELD	157,785	PHILLIPS	830,028	WIBAUX	353,070
GLACIER	1,183,248	PONDERA	1,084,024	YELLOWSTONE	18,979,281
GOLDEN VALLEY	232,771	POWDER RIVER	384,637	TOTAL	\$ 175,883,376

*Based on the December 2005 monthly benefit.

Good News continued from page 1

guaranteed pension benefit is a relatively **low cost** means of attracting and retaining qualified police, firefighters and other public servants. In FY2004 investment earnings contributed 75% of the Public Employees' Retirement System (PERS) revenue used to pay pension benefits. Employer contributions were only about 12% of the PERS revenue with employee contributions making up the remaining 13% of revenue.

Effective Employer Management Tool.

The Montana Board of Investments provides low-cost, professional investment, allowing public servants to **concentrate on their mission of providing public service**.

The risk of poor investment performance and the benefit of good investments are spread among all employees and employers. Employees can make retirement decisions based on rational considerations, rather than whether a market crash has wiped out their savings or a bubble made them seem wealthier than they were. This provides a more **predictable and stable workforce** for employers.

Benefit to Montana's Economy.

The benefit payments to Montana public employee retirees are essential to the Montana economy.

Benefit payments add roughly \$176 million each year to Montana's economy and tax base. Three-quarters of the revenue for those benefit payments came from investments, especially national and international investment markets. This infusion of new money for the main streets of Montana is spread across the state to retirees from over 500 local government employers. (See chart above.)

Retiree Benefits Reduce Cost of Government.

Over 16,000 Montana retirees collect benefits from the Board administered retirement systems. Roughly 15,000 of those are PERS retirees who receive, on average, \$800/month (\$9,600/year). Elderly and disabled retirees have a reliable source of income that reduces dependence on government programs like public assistance, Medicare and Medicaid.

The public employee retirement systems have proven their value over the long term. The Board and MPERA staff accept the challenge of continuing to improve Montana's public employee retirement systems. Continued value to Montana ... now that's good news.■

BOARD and COMMITTEE MEETING NOTICES

The Montana Public Employees' Retirement Board (Board) generally meets on the fourth Thursday of every month. Meetings are held at 100 N. Park, Suite 200, in Helena. Visitor parking is available in the west parking lot, next to the building.

Notice of the Board's regularly scheduled meetings, and any other Board or Employee Investment Advisory Council (EIAC) meeting, can be found on the Board's website, <http://mpera.mt.gov>.

Meetings are also listed on the state of Montana's e-calendar, accessible through <http://mt.gov>. Meeting agendas will be available at the same sites or can be obtained from Linda Owen, (406) 444-3154 or toll-free at (877) 275-7372.

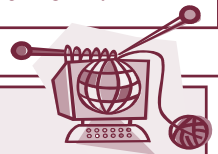
The Board has several committees (legislative, personnel, education) that meet on an as-needed basis. Committee meeting notices and agendas are available from the same sources listed above. ■

Welcome Home Troops

MPERA would like to extend a **"Welcome Home"** to our troops returning from active duty. Be in the know and know your rights. Returning public employees have the right to purchase service credit for their absence in accordance with the Uniformed Services Employment and Reemployment Rights Act (USERRA). If you are returning to work and wish to

purchase service credit for your absence, you must contact your employer to complete the appropriate forms. This service purchase must be completed within a limited time frame, based upon the length of your absence. Don't let your opportunity slip away. Contact MPERA at 444-3154 in Helena or toll free at (877) 275-7372 to request the proper form.

Our Website and Email Addresses have Changed



You may now reach us at our new email address:

mpera@mt.gov

Our website has additional plan information at:

<http://www.mpera.mt.gov>

Are you receiving information from MPERA?

MPERA, periodically, sends useful information to our members. Each time, some of the mail is returned because we don't have the correct address for all retirement system members. To ensure you receive the information we send, be sure to keep your mailing address current.

- ◆ If you are an active member, you should notify your employer of any address changes. Each month your employer provides MPERA a current address list for all of their employees. Contact your payroll clerk to verify your address if you suspect it is not current.
- ◆ If you are a retired member, you must submit an address change in writing to MPERA. Contact MPERA at 444-3154 in Helena or toll free at (877) 275-7372 to request the proper form.

RETIREMENT SYSTEMS FINANCIAL SUMMARY

In fiscal year 2005, the Montana Public Employee Retirement Administration (MPERA) served 42,553 active members and sent retirement benefits to 18,037 retirees and beneficiaries. MPERA is the professional staff of the Montana Public Employees' Retirement Board (Board).

A Comprehensive Annual Financial Report is produced by MPERA every year and is available online at <http://www.mpera.mt.gov/annualreports.asp>.

Retirement plan funding needs are spread over decades. Every second year, MPERA's actuary performs a study called a valuation, to calculate the long-term financial health of the retirement plans. An additional valuation was performed as of June 30, 2005 to provide the Legislature with updated information on the funding issues. (<http://www.mpera.mt.gov/actuarialvaluations.asp>)

To perform the valuation, the actuary calculates the amount of money we must have on hand to pay all the retirement benefits earned to date for both retired and active members. This calculation relies on actuarial assumptions and projections.

The actuarial value of assets is not the current market value, because the market value is based on what assets could be sold for on a specific date, which can change significantly from day to day. Instead, the actuarial value of assets is a more stable valuation method because it "smooths" short-term market gains and losses over a four-year period. This technique produces a valuation that approximates market value but removes much of the volatility. With less volatility, we can better understand and meet long-term funding needs.

Of eight defined benefit plans administered by MPERA, the actuary has determined that three are not able to meet the long-term costs of the plans. Those three are the Public Employees' Retirement System (PERS), the Sheriffs' Retirement System, and the Game Wardens' and Peace Officers' Retirement System.

Legislation to correct the funding problems of these three retirement plans was introduced in the 2005 Legislative Session at the request of the Board. However, no legislation was passed to correct the funding problem. The special session in December 2005 allotted \$25 million to help fund the PERS, but additional funding will be necessary to bring all three plans into compliance with Montana's Constitution, state law and accounting standards.■

ANOTHER RETIREMENT OPTION

A primary purpose of this newsletter is to assure defined benefit (DB) retirement system members that their retirement is secure. However, a DB retirement system may not be the best retirement option for you. Some may prefer the defined contribution (DC) retirement plan option available to PERS members within their first 12 months of employment.

The DC option provides plan members the opportunity to invest retirement contributions in an array of funds selected by the Public Employees' Retirement Board (Board) with assistance from its contracted investment experts and its Employee Investment Advisory Council (EIAC). The DC option does not guarantee a set retirement benefit. However, DC members invest

their own retirement funds, reaping the benefits of their investment decisions while also assuming the risks inherent to those decisions.

Regardless which option best meets your needs, be assured the members of the Board are looking after your retirement as if it were their own.■



Montana Public Employees' Retirement Board

Financial Summary Table -- FY 2005

	PERS-DBRP	JRS	HPORS	SRS	GWORS	MPORS	FURS	VFCA	PERS-DCRP	457	TOTAL
<i>Plan Net Assets 6/30/04</i>	\$3,030,678,813	\$44,955,415	\$78,608,711	\$140,504,020	\$45,246,250	\$148,410,720	\$141,146,207	\$20,095,323	\$19,298,045	\$224,748,963	\$ 3,893,692,467
<i>Employer Contributions</i>	60,297,089	1,162,148	3,323,903	2,812,818	2,053,538	3,790,841	2,959,095		1,856,440	54,999	78,310,871
<i>Member Contributions</i>	66,913,560	394,157	862,268	2,975,171	3,014,857	2,424,336	2,329,777		3,183,893	15,500,874	97,598,893
<i>Net Investment Income</i>	244,975,709	3,640,192	6,352,850	11,381,343	3,695,923	11,708,488	11,140,957	1,549,729	1,768,150	15,266,598	311,479,939
<i>Benefits Paid</i>	142,789,016	1,623,746	5,789,603	5,527,472	1,538,595	11,362,959	10,385,891	1,517,098			180,534,380
<i>Refunds/ Distributions</i>	13,236,058		180,822	611,528	607,022	785,660	101,235		1,873,378	15,591,355	32,987,058
<i>Administrative Expenses</i>	2,569,385	9,122	29,222	56,743	41,642	65,469	53,367	46,594	230,682	289,215	3,391,441
<i>Net Increase in Assets</i>	212,727,450	3,580,840	5,158,725	10,964,623	6,579,180	13,402,411	12,607,964	1,502,201	4,819,267	14,410,805	285,753,466
<i>Plan Net Assets 6/30/05</i>	\$3,243,418,873	\$48,535,407	\$83,767,372	\$151,469,671	\$51,825,981	\$161,814,551	\$153,755,082	\$21,600,362	\$24,109,346	\$239,405,278	\$ 4,179,701,923
<i>Active Members</i>	28,213	50	201	680	711	605	444	2,754	1,136	7,759	42,553
<i>Inactive Members</i>	10,571	4	19	123	103	61	63	687	154	-	11,785
<i>Benefit Recipients</i>	15,220	49	276	340	94	575	504	966	13	-	18,037

The Montana Public Employees' Retirement Board fiscal year 2005 annual report is available on our web site. Our web address is www.mpera.mt.gov.
The report can be found under Publications/Annual Report. You may request a printed copy by contacting our office.

Corner

When will I receive my tax information?

Your 1099-R tax form is mailed. If you do not receive your 1099-R by February 10th or, you have misplaced it, contact MPERA and a duplicate form will be provided to you. A request for a duplicate 1099-R takes five business days to process, please allow us enough advance notice to respond, so you can meet your tax filing deadlines. Remember, your 1099-R tax form was mailed to the most recent address we have on file. Just another reason to keep your mailing address up-to-date!

How do I change my tax withholdings?

Retirees may have both federal and Montana state taxes withheld from their monthly retirement benefit. To do so, you will need to complete the form obtained from this office. Complete and sign the form and return to MPERA. If we receive the notification by the 15th of the month, it will be effective on your next benefit.

How do I have my benefit directly deposited into my bank account?

Direct deposit of your benefit is definitely the way to go! The money is in your account on the last working day of the month. Without direct deposit, your benefit is mailed on the last working day of the month and may take a few days to get to you. You must obtain and complete a *Direct Deposit Agreement* form from this office. A direct deposit form must be received by the 15th of the month to ensure your benefit is electronically deposited at the end of that month.